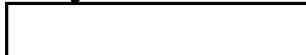


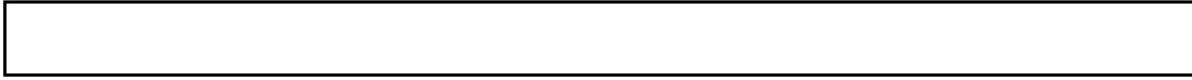

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State Dept. review completed

DIA review(s) completed.

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ISRAEL-EGYPT

Israeli Prime Minister Rabin, in an interview broadcast on British television on December 12, again talked about Israel's negotiating strategy.

Israel, he said, is prepared to make peace with Egypt and return the Abu Rudays oil fields and the Sinai mountain passes, but it will not return all the territory captured from Egypt in the 1967 war. He said that he thought Egypt is still the key Arab country which will determine whether there will be another Middle East war. However, as more time passes, he said, Cairo is losing this key role. The Soviets, he claimed, are building up Syria and Iraq as a political and military counterweight to Egypt in the Arab struggle against Israel. Rabin again did not discuss negotiations with Syria.

As for Jordan, Rabin expressed the hope that it would still be possible some day to reach a settlement with King Husayn regarding the West Bank. He thinks it will take a year or two before the Arabs realize their strong stand at the Arab summit supporting the Palestine Liberation Organization is fruitless and again allow Husayn to play a role in the negotiations.

Rabin acknowledged that there can be no just and durable peace without a solution to the Palestine issue, but strongly defended Israel's refusal to negotiate with the PLO, even if it indicated a readiness to accept the existence of Israel. One of the "greatest mistakes Israel could make," he said, would be to talk with the PLO and thereby "practically recognize" it as legitimate.

The Prime Minister suggested that neither the Arabs nor Israel will be able to force a Middle East settlement by war. Israel can reduce the Arab military threat and gain time by going to war. It is clear to him, however, that the big powers, or at least one of them, will not

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allow Israel to score the type of victory that would enable it to dictate the terms of a settlement. The Arabs, too, he thought, do not really believe that they can inflict a defeat on Israel that would give them what they want.

He repeated the standard Israeli line that Israel would not be the first to introduce nuclear weapons into the Middle East, but added that it could not permit itself to be the second either.

Rabin's statement is one of the firmest official affirmations that Israel has or could quickly obtain such weapons. Rabin cautioned the Arabs about using long-range rockets against Israeli population centers. Israel, he said, can hit Arab cities ten times harder, even using only conventional weapons.

* * * *

Egypt's Foreign Minister Fahmi issued a sharp official response yesterday to recent remarks by Israeli Prime Minister Rabin. The response looks like a toughening of Egypt's negotiating position. The Egyptians produced a list of ostentatiously uncompromising conditions for a "full and final settlement" that included:

- full Israeli withdrawal from all occupied Arab territories back to international borders;
- Israel's recognition of the PLO as the sole legitimate representative of the Palestinian people and recognition of Palestinian national rights;
- either the creation of a democratic state in which Jews, Muslims and Christians live on an equal footing, or application of the United Nations Palestine partition plan;
- a pledge by Israel to renounce its expansionist policy and a pledge that it will not accept any more Jewish immigrants during the next 50 years;

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--Israeli compensation to the Palestinians who have lost their property and to the Arab states for damages they suffered during all previous wars.

Described by the Egyptian news agency as an official statement, Fahmi's remarks are a major departure from Cairo's usual tack of avoiding the issue of a final settlement and concentrating instead on interim steps in the negotiations. His call for either the creation of a democratic secular state--an Arab catch phrase used to deny Israel's right to exist--or, alternatively, the imposition of the 1947 partition plan is the kind of rhetoric usually voiced only by Arab radicals.

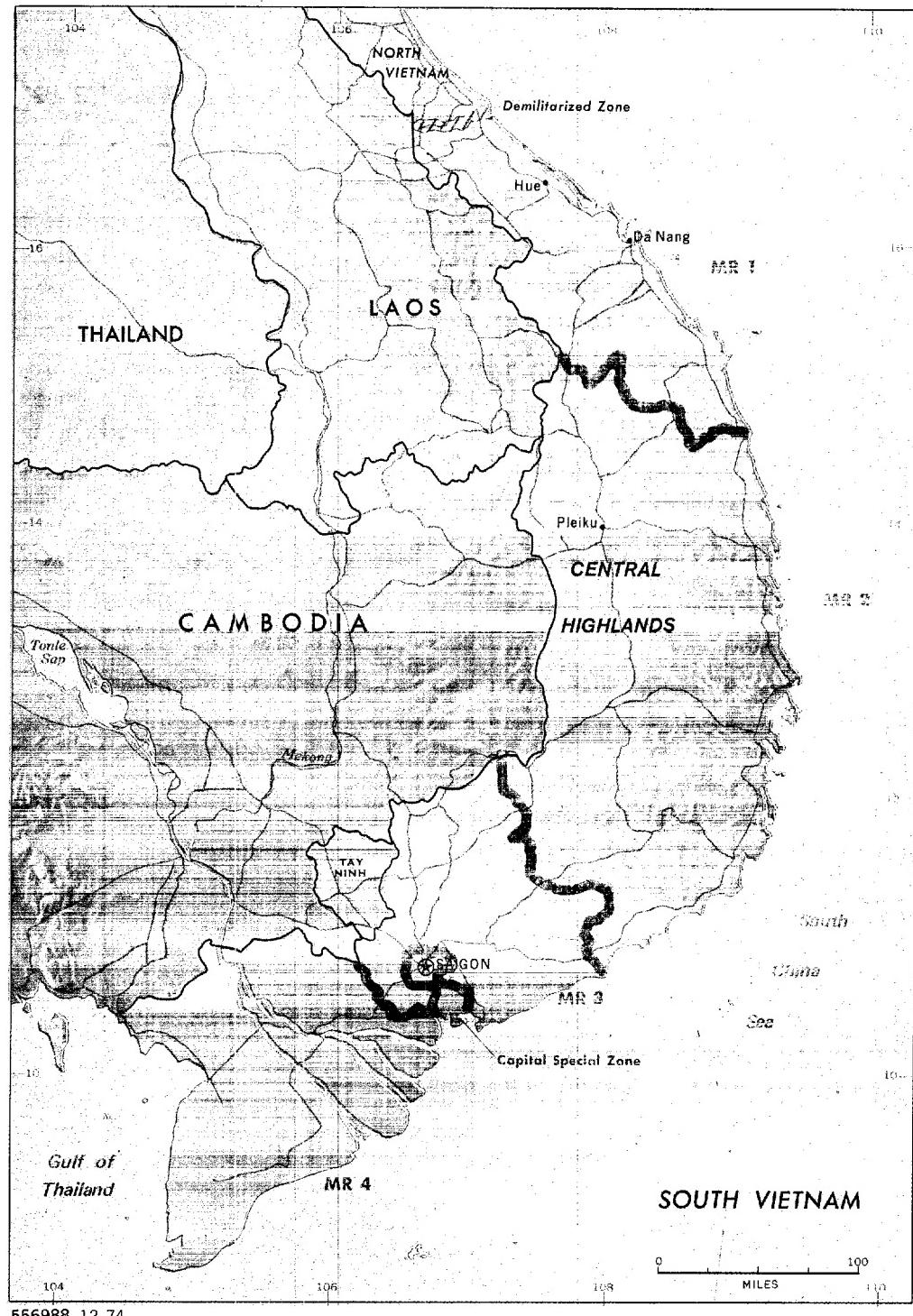
Fahmi's statement was described as a comment on an interview by Rabin published the same day in which the Prime Minister amplified an earlier interview that, in effect, called for Egyptian acquiescence in an Israeli strategy to delay a final peace settlement for years. Cairo had withheld comment after the first interview, but apparently felt that it could no longer allow the impression of possible Israeli-Egyptian complicity created by Rabin to go unrefuted.

Fahmi's statement, though a not unexpected response to Rabin's candid airing of an Israeli strategy to avoid a final settlement, is so extreme a statement of Egyptian requirements as to suggest that Sadat intends it to signal a major change in Egypt's attitude toward negotiations with Israel. While he has never been willing to contemplate establishing diplomatic relations with Israel, Sadat has implicitly acknowledged Israel's right to exist within its 1967 borders and is on record as being willing to sign a peace agreement on those terms.

If Fahmi's statement represents a fundamental shift in Egyptian negotiating strategy, Sadat himself can be expected to follow up with a public restatement of the position carrying his personal stamp of authority.

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SOUTH VIETNAM

The Communist dry-season campaign, now in its second week, is producing scattered but intense fighting in the southern half of South Vietnam.

The initial action began on December 6 in the southern delta provinces and consisted largely of widespread shellings and small-scale ground attacks against the more remote government positions with strong emphasis on cutting major highways. By last weekend, similar activity spread to the northern delta provinces and into widely scattered areas closer to Saigon, most notably in Tay Ninh Province.

Nearly all the action has been initiated by Communist local forces, but as the fighting developed some North Vietnamese mainforce units have become involved. This is particularly true in the northern delta where scattered local Viet Cong attacks were designed to mask the infiltration of the Communist 5th Division from Cambodia into Military Region 4. Government reaction forces later moved in to block the incursion and heavy fighting is now under way.

Government casualties sharply increased during this first week of the campaign. South Vietnamese forces claim Communist losses have also been high. The government's territorial forces have absorbed the brunt of the initial Communist attacks.

In a few areas, particularly in Military Region 3, these provincial forces have done well enough to allow government commanders to save their regular units for the heavier action expected later. In many areas of the delta, however, the provincial forces have lost outposts and defensive positions near some populated areas. This has forced the government to commit some of its regular units to the fighting.

The campaign also appears to be hurting the government's pacification program in some areas, particularly in the delta. The Communists have forced the relocation of a large number of civilians and interrupted the rice harvest as well as the flow of farm goods to the markets.

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Although Communist plans called for increased military action in the central provinces as well, government operations and troop deployments have probably forced the Communists to delay these plans. Government gains in the northern provinces, including the recapture of important highground positions south of Hue, may provoke Communist counteraction. Nevertheless, no major initiatives are expected soon because of poor weather, although terrorist incidents and sapper attacks are likely to increase.

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VIETNAM

Several ralliers and escapees have indicated that the Communists are continuing to have major difficulties in establishing effective resettlement programs for civilians captured during military advances.

In one province some 15,000 civilians were captured; after interrogation and classification they were moved to 5,000-man resettlement camps. However, little planning was made for providing food, shelter, or health care. Neither housing nor sanitary facilities were available, and there was nothing in the way of construction materials. When food ran out, the Communists cadre allowed one member from each family to return to his native village to harvest whatever might be left of the rice crop. At least 120 of the villagers, including 100 children, have died from various diseases, including malaria and dysentery. Most of the able-bodied men and women were forced to join military units leaving only the aged and the very young.

Recently captured documents indicate that a major aim of Hanoi's planners this year is to seize control of large parts of the population. The Communists, however, are either unable, or unwilling, to provide support to the people being resettled in their areas. This lack of planning could present a major obstacle to population-control operations.

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BURMA

The Burmese government is continuing to take a tough stand in the wake of the rioting in Rangoon this week.

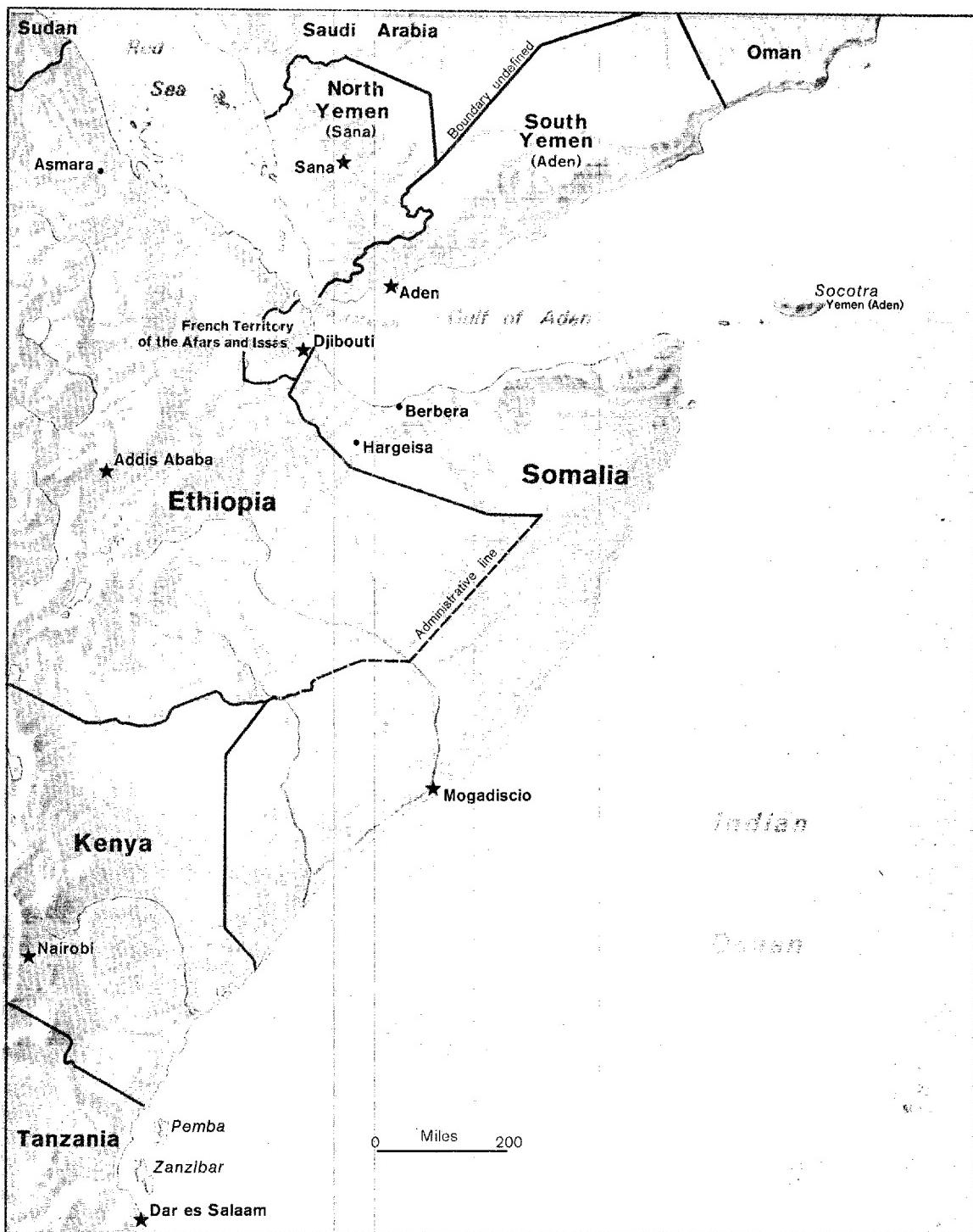
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Although Rangoon is generally quiet, the government faces an immediate problem in trying to restore normal economic activity. During the past week, prices for rice and other food have jumped significantly, some as much as 50 percent. The marginally employed, who live hand-to-mouth, have been especially hard hit, and the US embassy believes that renewed disturbances are possible unless the economic situation improves quickly.

In the past, the Ne Win government has used force effectively to put down disorders. The events this week, however, were the broadest outbreak of discontent in many years and, according to the embassy, the public remains bitter and resentful.

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USSR

Admiral Gorshkov, deputy minister of defense and commander in chief of the Soviet navy, arrived in Aden on December 12 to begin an official visit--his first--to South Yemen and Somalia. He is scheduled to be in Mogadiscio from December 16 to 19

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This part of the world is of special interest to the Soviet navy. Ships of the Soviet Indian Ocean contingent receive much of their logistic support and on-station maintenance in the Gulf of Aden area. Aden's port is visited frequently by Soviet auxiliaries for water, food, and occasionally for fuel. In addition, Aden's nearby international airfield may provide naval units and personnel with transport service to the USSR. Soviet combatants also visit Aden, but receive support mostly from Soviet auxiliaries in a nearby anchorage.

Across the Gulf of Aden at Berbera, Somalia, Soviet naval personnel have direct control over some facilities. Most Soviet warships operating in the Indian Ocean routinely put in to Berbera for resupply, minor repairs, and short-term crew rest. Repairs are performed alongside a Soviet barge that has been docked there since October 1972.

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The Soviets' increased diplomatic attention to this area is in part related to the anticipated reopening of the Suez Canal. Moscow probably wants to ensure its access to port services in the Gulf of Aden in the face of the increased competition for these services that

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will result from the opening. The Soviet interest probably also reflects an appreciation for the increased Western dependence on the oil that is transported through this area and the expanded US and French naval presence.

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OPEC

The oil ministers of the Organization of Petroleum Exporting Countries at their meeting that ended yesterday in Vienna agreed to abolish the present posted-price system and to replace it with a single unified price. The meeting also decided that OPEC oil and foreign ministers will meet in Algeria on January 24.

Effective January 1, the new average take of OPEC governments for crude oil will be \$10.12--an increase of 4 percent or 38 cents per barrel. This means that OPEC as a whole has accepted the price increase made by Persian Gulf oil producers at a meeting in Abu Dhabi in November. This is expected to raise the world's oil import bill by about \$4 billion next year and the US' bill by about \$800 million.

Iranian Minister of Interior Amouzegar described the new price as a "generous gesture" to allow consumers time to coordinate their positions. He said that the problem of relating oil prices to Western inflation would be taken up later, possibly as part of a producer-consumer dialogue.

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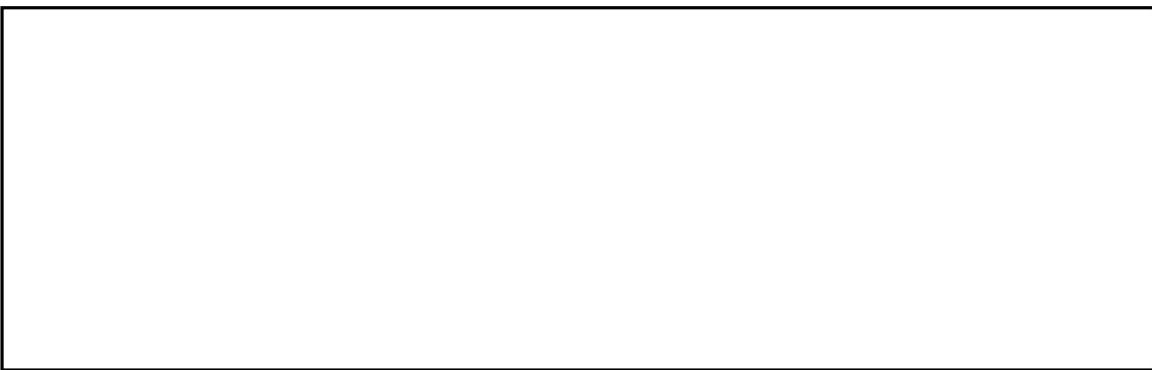
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**NORWAY**

Norwegian Prime Minister Bratteli's minority Labor government survived a vote of confidence yesterday when the opposition Center Party and three splinter parties voted with the government.

Bratteli decided to put his government on the line after a plan to repurchase a controlling interest in a Canadian-owned aluminum firm was blocked by the opposition parties. Parties on all sides had wanted the government to hold out for more favorable terms. The opposition parties clearly did not want to bring the government down over a minor issue at a time when they are deeply divided.

There is no provision in the Norwegian constitution for an interim election, and new governments have to be formed from the current parliamentary mix. The opposition as a whole controls the largest bloc of seats in parliament, but it would have found the task of putting together a government all but impossible.

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VENEZUELA

Venezuelan officials believe that re-establishment of diplomatic relations with Cuba is imminent; only the specific timing remains in doubt.

President Carlos Andres Perez fueled speculation with a well-publicized three-hour meeting with Cuba's Raul Roa in Lima last week. Perez said that he intended to invite Fidel Castro to the Venezuelan-sponsored meeting of Latin American chiefs of state next year in Caracas and that his government no longer felt bound to wait for affirmative OAS action before recognizing Cuba. Perez noted that Cuba had already "indicated its desire to re-establish relations" and that his country had "demonstrated its receptivity to this initiative."

Although some officials reportedly would prefer to wait for the OAS to lift the Cuban sanctions before recognizing the Castro regime, they are apparently resigned to the fact that Perez will not delay action much longer. On December 11, a high Foreign Ministry official told the press that the recent OAS meeting had freed Venezuela from "multilateral obligations" and that "the possibilities that relations will be re-established have come closer."

The re-establishment of relations will merely formalize the economic and political contacts that now exist. Cuban ministers and other officials arrive in Caracas frequently and Venezuelan officials have visited Cuba in return. The two countries have reportedly discussed the sale of Venezuelan petroleum to Cuba. There has already been trade in Cuban sugar and Venezuelan rice.

Venezuela's interest in pushing ahead with relations appears twofold: ideological--the government is committed to having diplomatic relations with as many foreign governments as possible; and economic--the expansion of commerce which would be advantageous to Venezuela.

There is no specific indication when Perez intends to act. A traditional vehicle for major policy announcements is the New Year's Day presidential address.

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